ProClass Guidance Paper

Real-Time Classification

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1. INTRODUCTION

1.1 Background

This guidance provides information on all aspects of introducing ProClass into a local authority or other public sector organisation. However, the following data handling and process issues need to be addressed if organisations genuinely wish to start to benefit from the outcomes presented by adopting ProClass including:

- Standardisation of management reporting, performance measurement and benchmarking for procurement across regions and between local authorities and public sector bodies
- Underpinning and identifying the exchange and comparison of meaningful information to identify new ways of collaborative working, including support for promoting the shared services agenda
- Enabling more effective procurement planning, category and contract management with the aim to move to a more strategic and coherent approach to procurement across Council departments.
- Providing the overarching framework for linking together information derived from disparate IT and / or coded systems

The first two guidance papers cover the difference between retrospective classification and real-time classification:

- Real-time classification is the allocation of procurement classifications at the earliest point in time, such as the point when the contract is made or requisition or purchase order is placed. Or, for non-order related purchases, when the invoice is coded.
- Retrospective classification is the allocation of procurement classifications to spend data to give a historical overview of where money has been spent.

1.2 Getting started

Most organisations are not going to be able to implement real-time classification quickly and easily, and will need to compromise on retrospectively classifying data in order to start accruing the benefits[1].

Real-time classification is ideal as the individuals who are making the purchase decide on the appropriate classifications to use and there is much less opportunity for miscoding, particularly as there are fewer categories to select from in ProClass than in other classification hierarchies and these are described in plain language with extra clarification where necessary.

However, real-time classification can require significant changes to established procedures and systems and is not always an immediate option. Retrospective classification does not necessarily mean wasted effort as the results can be reapplied in future years and it starts to provide comparative data sets for analysis and collaborative planning.

In practice, a combination of both real-time and retrospective classification will be required for a full solution.

This paper is written as guidance to those organisations that want to review their use of procurement systems to support ProClass. A suitable approach will need to be discussed with the system providers. The aim is to ultimately hold procurement classification(s) against all procurement transactions. In many cases it is easiest to add procurement classifications to the invoice lines in the finance system, but classifications can be added to the following to reduce the requirement to apply classifications at the invoice stage:

[1] Refer to CIPS White Paper Maximising Returns from Purchasing Data - Informed business decisions from coding and classification - co-written by Ken Cole, FCIPS and Liz Watkins-Young (Revised Sept 2007)

- Contract registers
- Requisition and Purchase Order systems
- Operational systems (such as Social Care, Works Management etc.)
- Interfacing routines
- e-Procurement systems
- Purchasing card solutions

This can be an ongoing project – start with one or more procurement routes and work to embed more and more real-time classification over time.

2. PURPOSE

The purpose of this document is to suggest ways in which procurement classifications could be implemented. The implications of doing this should be discussed with solution providers, ideally prior to the implementation or reimplementation of procurement or finance systems.

3. OBJECTIVES

The business objective is to classify a high percentage of organisational spend at source, resulting in a more accurate overview of spend and real-time analysis such as "What was spent last month on Electricity?", "What contracts are in place for Health and Safety?", "What requisitions are outstanding for Furniture?"

Opportunity analysis and planning is more effective and can be completed on an ongoing basis rather than waiting for a mapping exercise to be completed at the end of each financial year before analysis is available on up-to-date spend.

3.1 Benefits of using real-time classification

Accurate classification is made by the person who is purchasing the service/product, not the person approving or entering the invoice. Provided this process is kept simple and the choice of classifications offered is limited and expressed in plain language, then mistakes should be minimised.

- Real-time information is available for opportunity analysis and planning, i.e. there is no waiting for a year end and the overhead of a classification exercise
- Classifications can be used to improve internal procedures, e.g. determine procurement routes
- Classifications can be used to identify issues in real-time rather than retrospectively (off contract spend for example)

3.2 Summary of issues of using real-time classification

- System issues include:
    - The Finance system must support the allocation of a ProClass classification (usually its numerical value) on the invoice line (as a minimum requirement)
    - There maybe limited system functionality enabling defaulting of ProClass from the supplier or other records
    - Operational systems have their own coding structures which require mapping to ProClass in interfaces e.g.
        - different categories or packages of social care in the social care system
        - UNSPSC in e-Procurement
        - SIC codes for Purchasing Cards and CPV codes for EU tenders
    - There is often no automated interface between upstream transactions (contracts, purchase orders etc.) and the finance system meaning classifications would have to be manually transposed
    - Limited query and reporting facilities to support real-time analysis using procurement classifications
- Training and education is required for manual classification
- It will be necessary to change paper and online forms and internal procedures
- ProClass versions must be kept up to date (and reapplying historically if required), including any cross-references to other coding/classification structures
- New or changed ProClass headings must not be created, only existing headings are to be used. There is a procedure for adding/changing headings if it is necessary, please see Section 5

- It can be difficult to get good enough coverage which limits the value of attempting real-time classification (often real-time classification needs to be combined with retrospective classification to achieve 80% coverage of spend)

4. Suggested Approach

This paper outlines the ideal use of classification in a real-time environment. The ideal time to use this approach is when implementing or re-implementing a new system as it does have an impact on operational, finance and other systems and will require changes to procedures and proformas (such as order pads and coding slips).

There will also be a training implication as individuals who were previously only responsible for allocating financial (i.e. subjective) codes will now be expected to allocate ProClass, even though these may be far more limited. However, ProClass is structured around local authority spend areas, so it is likely that only a sub-set of classifications will need to be understood by any one person.

Wherever possible, systems should be designed to default to classifications based on other choices that individuals make – selecting from catalogues for example. However, it should always be possible for classifications to be overwritten. One good way to ensure coverage is to check that ProClass has been considered for all procurement routes i.e. contract related, e-procurement, purchasing card, invoice only etc.

See Appendix A for examples.

4.1 The aim

The aim is to have all invoice lines classified to one or more levels of ProClass, without it being an administrative overhead; i.e. by using as many opportunities of defaulting appropriate classifications onto the invoice line and avoiding human entry.

- Start by analysing Procurement Routes and current interfaces for quick wins
- Continually improve:
    - Analyse invoices to show where areas of spend are not being classified real-time
    - Use retrospective classification to 'fill gaps'
    - Ensure classification is considered and improvements met when system upgrades are made, new systems are evaluated or systems are re-implemented (for all procurement related systems, not just finance)
- Develop reports and queries to make use of ProClass
- Work with internal stakeholders to develop ways to use ProClass:
    - Internal audit
    - Budget holders
    - Service heads
    - Procurement team: Lead buyers, supplier/contract relationship managers, category managers

4.2 What can we classify?

Default classifications can be held on the following records. These 'defaults' would then automatically populate transactions where they could then be overridden if necessary

- **Suppliers**
  It is only appropriate to hold a default classification at this level for suppliers who provide a single product or service. Many suppliers to local authorities will supply a range of products and/or services. In this case a default may be useful for a main product or service but would need to be overridden for non-standard purchases
- **Products**
  If a product catalogue is used, then this is an ideal place to hold a default classification. Dummy products can be set up for services etc.
- **Subjectives**
  The subjective is a close match to describing 'what' is being bought and for some subjectives there will be a one-to-one match (Stationery, Utilities, IT etc.), however for some subjectives there is a one-to-many match and it is not possible to hold a default.
- **Transactions – Contracts, Requisitions, Orders, Invoices**
  The appropriate classification should be applied at the earliest opportunity, ideally by defaulting from one of the above or by being entered directly onto a transaction. This classification should then be defaulted to the next transaction in the cycle as it is progressed, avoiding the requirement to re-classify in the future. This should be considered for transactions that originate in systems other than the finance system. For example, is there any way of classifying transactions in a Social Care system for example that could be defaulted onto the invoice in an interface.

4.3 Prioritising defaults

Clearly conflicts will arise when a choice of defaults needs to be made. Different systems will handle this in different ways; however we would recommend the following order:

1. User choice
2. Product
3. Subjective
4. Supplier

4.4 Issues

- ProClass is primarily description based. A coded version is available to support system implementation, however all reports should be based on the descriptions.
- Functionality may not be available in some finance systems; although this should always be checked carefully with the supplier as it may be masked or not switched on at present. Alternative solutions will need to be discussed with providers. The important thing is to discuss the implementation of procurement classifications as early as possible in an implementation.
- Reporting. For the benefits of real-time classification to be available, it will be necessary for the finance system to produce appropriate reports, including:
  - Spend, number of invoice lines by ProClass
  - Spend, number of invoice lines by ProClass / Supplier / Department / Subjective combinations

APPENDIX A – EXAMPLES OF DEFAULTING CLASSIFICATIONS

The following examples consider how ProClass can be applied to different procurement routes.

EXAMPLE 1 – STATIONERY PURCHASE USING E-PROCUREMENT

All e-Procurement solutions from Market Places to Portals support some form of procurement classification or coding, usually UNSPSC. Cross references to ProClass from the standard procurement codes are available from the ProClass website. These should be used to revise interfaces between e-Procurement and the finance system to ensure that invoices arrive in the finance system fully classified. The value of classifying only in e-Procurement is lost if the spend cannot be consolidated with spend from other procurement routes.

EXAMPLE 2 – UTILITY INVOICE RECEIVED BY FINANCE DEPARTMENT

In this case there is unlikely to be a related purchase order containing a classification, and internal procedures are probably arranged so that the invoice is placed directly on the system as pre-authorised. Defaulting a classification from the supplier would probably be unhelpful as most utility providers also provide works-type services in addition to fuel. In this case holding a ProClass default on the subjective code would be the best solution.

EXAMPLE 3 – ADULT CARE INVOICE GENERATED BY SOCIAL CARE SYSTEM

Many councils are now uploading social care invoices directly from their Social Care systems. This area of spend is often easily mapped to ProClass, so defaulting classifications from the subjective code in the finance system is an option. However, another solution may be to hold a cross-reference in the Social Care system to enable more detailed classification. This approach should be considered for any invoice generated in a system other than finance, but passed to the finance system for payment and accounting.

EXAMPLE 4 – MISCELLANEOUS PURCHASE USING A PURCHASING CARD

This may mean a change to procedures. Usually purchase card holders are expected to complete a form cross referencing their statement. They will be asked to include appropriate subjective and cost centre codes and it may make sense to ask them to select a ProClass classification too. This would mean that they could apply their spend to a generic type subjective (Staff Training or Miscellaneous), but still classify what they've actually bought (e.g. sandwiches!). It is likely that only a small subset of ProClass classifications would be used in this way which would limit the training requirements for purchasing cardholders. Alternatively defaults could be held by supplier industry classification or subjective code, as long as there was a one-to-one match with ProClass.

EXAMPLE 5 – A HIGH VALUE TERM CONTRACT (POTENTIALLY PAPER BASED) FOR CAPITAL WORKS OR OUTSOURCED SERVICE

This is best classified when details are entered onto the contracts register once the contract is let; ensuring that expenditure against it is also tracked in the finance systems. This latter point is important as the council may also be using the supplier for a range of other services, and it is important to be able to distinguish contract and non-contract related expenditure. If the contract involves multiple services which cannot be adequately described using just one ProClass classification entry, then it may be wise to use an operational system if possible, such as with Example 3. This type of expenditure typically accounts for over 80% by value, but details are often not incorporated into operational or transactional based systems as the contracts are mostly paper based.